

## Message Text

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ACTION EUR-12

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USIE-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08 EA-07  
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DEPARTMENT OF TREASURY IMMEDIATE  
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TREASURY FOR BERGSTEN (URGENTLY)

DEPARTMENT PASS FEDERAL RESERVE AND CEA

E.O. 11651: N/A

TAGS: EFIN, ECON, OECD

SUBJECT: OECD COUNTRIES' VIEWS ON FINANCIAL SUPPORT  
FUND AND PROPOSED NEW IMF FACILITY

REF: A) STATE 84764

C) C/M(77)5

E) OECD 8130

1. BEGIN SUMMARY. SPEAKING IN MOST CASES UNDER IN-  
STRUCTIONS AND CONSCIOUS OF IMPENDING G-10 DEPUTIES  
MEETING, REPRESENTATIVES OF 17 OF OTHER 23 OECD  
COUNTRIES ADDRESSED THE QUESTION OF NEED FOR FINANCIAL  
SUPPORT FUND (FSF) UNDER PRESENT CONDITIONS, AND IN  
PARTICULAR WHETHER THE PROPOSED ESTABLISHMENT OF A  
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NEW, LARGE FACILITY LODGED IN THE IMF DIMINISHED THAT  
NEED. THE GREAT MAJORITY OF THOSE SPEAKING CALLED FOR  
BRINGING FSF INTO FORCE AND CRITICIZED THE USG FOR NOT  
WORKING FOR RATIFICATION AFTER PRECIPITA-  
TING THE PLAN. CONSPICUOUS FOR THEIR SILENCE WERE THE  
LARGEST EC COUNTRIES AND CANADA; G-10 COUNTRIES  
FAVORING FSF WERE JAPAN, BELGIUM, ITALY AND SWEDEN.

2. MAIN THEMES OF STATEMENTS WERE FAIRLY CONSISTENT ALONG FOLLOWING LINES, ALTHOUGH THERE WAS CONSIDERABLE VARIATION IN EMPHASIS AND SOME NUANCES OF PARTICULAR INTEREST:

A) SUPPORTING SECGEN'S PRESENTATION AT PREVIOUS COUNCIL MEETING (REFS B AND C), COUNTRIES STRONGLY REFUTED INTERPRETATION THAT FSF AND IMF FACILITIES ARE MUTUALLY EXCLUSIVE OPTIONS. ESSENTIAL ARGUMENT WAS THAT FSF IS INSURANCE MECHANISM, LENDER-OF-LAST RESORT, WHICH WOULD BOLSTER CONFIDENCE AND ENCOURAGE FINANCING DEFICITS IN PRIVATE MARKETS MERELY BY ITS EXISTENCE, IN CONTRAST WITH ACTUAL LENDING ENVISIONED FOR IMF FACILITY. WHILE MOST SPEAKERS RECOGNIZED CHANGED CIRCUMSTANCES SINCE FSF SIGNED, THEY FELT NEED FOR FSF IS STILL EVIDENT;

B) FSF IS FINANCIAL COUNTERPART OF OECD COOPERATION IN OTHER AREAS, CHIEFLY THE TRADE PLEDGE AND ENERGY, AND FAILURE OF US TO RATIFY WOULD RISK UNRAVELLING CAREFULLY WOVEN COOPERATIVE FABRIC;

C) IT WAS IMPLIED THAT TRUST IN US LEADERSHIP IN GENERAL, AND RESPECT FOR US INITIATIVES IN THE OECD IN PARTICULAR, WOULD BE WEAKENED IF US FAILED TO FOLLOW THROUGH ON THIS CAREFULLY WORKED OUT AND NEGOTIATED PACKAGE IN WHICH SEVERAL OTHER GOVERNMENTS HAD INDICATED A SUBSTANTIAL POLITICAL INVESTMENT, AND USG OWES DETAILED EXPLANATION AS TO WHY IT IS APPARENTLY REJECTING ITS OWN CHILD;

D) PROPOSED NEW IMF FACILITY IS HIGHLY DESIRABLE LIMITED OFFICIAL USE

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(ALTHOUGH FULL INFORMATION ON ITS CHARACTERISTICS WOULD BE NECESSARY);

E) STRONG DESIRE EXISTS FOR BRIEFING ON OUTCOME OF APRIL 16/17 G-10 DEPUTIES MEETING (THIS WILL BE PROVIDED BY SECRETARIAT AT APRIL 19 COUNCIL MEETING).

3. US REP (AMB TURNER) MADE STATEMENT PER REF A. ITALIAN REP INDICATED THAT PARLIAMENT HAS JUST RATIFIED AGREEMENT AND GOI WOULD BE DEPOSITING INSTRUMENT OF RATIFICATION. END SUMMARY.

4. OECD PERM REPS MET APRIL 15 IN HEADS OF DELEGATION FORUM TO CONTINUE DISCUSSION OF FUTURE OF OECD'S FINANCIAL SUPPORT FUND STIMULATED BY SECGEN VAN LENNEP'S REPORT TO MARCH 31 COUNCIL MEETING ON HIS TRIP TO THE US (REF B). ALL MEMBERS EXCEPT CANADA,

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FRANCE, GERMANY, LUXEMBOURG, NETHERLANDS AND UK SPOKE,  
WITH MOST NOTING THAT THEY WERE PRESENTING CONSIDERED  
VIEWS OF THEIR AUTHORITIES. OF NON-US SPEAKERS, ONLY  
SWISS WAS RELATIVELY NEUTRAL VIS-A-VIS NEED FOR FSF.  
AUSTRALIA, DENMARK AND IRELAND QUALIFIED SOMEWHAT  
THEIR COMMITMENT TO FSF, BUT REMAINDER GAVE FULL  
ENDORSEMENT. THE FOLLOWING PARAGRAPHS REPORT INDIVI-  
DUAL COUNTRIES' POSITIONS TO THE EXTENT THEY CONVEY  
PARTICULAR EMPHASIS OR NUANCE TO, OR DEPARTURE FROM,  
THEMES NOTED IN PARA 2 ABOVE.

5. IT SHOULD FIRST BE NOTED THAT IN INTRODUCING THE  
DISCUSSION, VAN LENNEP DID NOT REITERATE ARGUMENTS  
HE HAD ADVANCED IN WASHINGTON IN SUPPORT OF FSF. HE  
DID, HOWEVER, DRAW ATTENTION TO THE FORTHCOMING  
MEETING OF G-10 DEPUTIES AND THE NEED TO CONSIDER THE  
FSF IN THE CONTEXT OF DECISIONS ON OVERALL LIQUIDITY  
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NEEDS AND FINANCING FACILITIES, AND HE EMPHASIZED THE IMPORTANCE IN THAT CONTEXT OF GIVING NON G-10 COUNTRIES AN OPPORTUNITY TO MAKE THEIR VIEWS KNOWN.

6. JAPAN. AMB HIRAHARA SAID THAT THE FSF HAD CHARACTERISTICS WHICH WOULD ENABLE IT TO DEAL WITH SOME PROBLEMS UNIQUE TO THE OECD AREA AND WOULD BE NEEDED EVEN IF A NEW IMF FACILITY WERE ESTABLISHED. HE HAD IN MIND PARTICULARLY THE DESIRABILITY OF MAXIMIZING FINANCING THROUGH THE PRIVATE MARKET AND CAPACITY OF THE FSF TO ENHANCE SUCH "SECONDARY RECYCLING." HE EMPHASIZED THE MAJOR EFFORT UNDERTAKEN BY JAPANESE GOVERNMENT TO ACHIEVE RATIFICATION AND EXPRESSED THE "STRONG HOPE" OF GOJ THAT OTHER COUNTRIES WILL MOVE TO RATIFY. (HIRAHARA HAD PREVIOUSLY EMPHASIZED TO AMBASSADOR TURNER THE EFFORTS MADE BY HIS GOVERNMENT TO SELL THE FSF TO THE DIET, AT U.S. INSTIGATION, AND THE GREAT DIFFICULTIES WHICH WOULD RESULT FROM ITS ABANDONMENT -- SEE REF E.)

7. AMONG COUNTRIES WHICH ARE MEMBERS BOTH OF THE EC AND THE G-10, ONLY BELGIUM AND ITALY SPOKE. BOTH REITERATED THEIR SUPPORT OF THE FSF (ALTHOUGH ITALIAN DEL MAY HAVE BEEN SPEAKING WITHOUT INSTRUCTIONS). BELGIAN DEL, EXPRESSING HOPE OTHERS WILL RATIFY AND SUPPORTING WITTEVEEN INITIATIVE, DWELT ON CONTINUING NEED TO REDUCE UNCERTAINTIES IN OECD CAPITAL MARKETS WHICH WAS AND STILL IS PRIMARY PURPOSE OF FSF. ITALIAN DEL REPORTED THAT PARLIAMENT HAD FINALLY RATIFIED THE FSF AND SO GOI WAS IN POSITION TO DEPOSIT RATIFICATION INSTRUMENT.

8. NORWEGIAN DEL REPORTED THAT THE FINANCIAL COMMISSION IN HIS PARLIAMENT HAD UNANIMOUSLY RECOMMENDED THE RATIFICATION OF THE FSF WHICH WAS SUBSEQUENTLY APPROVED BY FULL PARLIAMENT. HE FELT THAT A VERY UNFORTUNATE PRECEDENT WOULD BE ESTABLISHED WITH RESPECT LIMITED OFFICIAL USE

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TO LEGITIMACY OF OECD DECISIONS IF THE FSF DID NOT COME INTO FORCE.

9. PORTUGUESE DEL, NOTING HIS COUNTRY'S KEEN INTEREST IN THE FSF, EMPHASIZED A NEED FOR CLARIFICATION OF THE POSITIONS OF COUNTRIES--NOTABLY THE UNITED STATES--WHICH HAD NOT YET RATIFIED. (HE SAID, HOWEVER, THAT HE LACKED INSTRUCTIONS FOR MEETING.)

10. TURKISH DEL BOTH EMPHASIZED SYMBOLIC IMPORTANCE OF FSF FOR OECD SOLIDARITY AND ASSERTED THAT IF THE FUND WERE NOT REALIZED, OTHER COOPERATIVE MEASURES IN THE

OECD WOULD BE NEEDED. (HE ALSO STATED THAT HIS  
AUTHORITIES WERE PARTICULARLY CONCERNED AT THE  
PROTECTIONIST TENDENCIES WHICH WERE BEING MANIFESTED IN  
CERTAIN COUNTRIES.)

11. ICELANDIC DEL STRESSED SUPPORT FOR WITTEVEEN  
INITIATIVE IN UNDERLINING HIS COUNTRY'S EXCELLENT RELA-  
TIONS WITH THE IMF AND HOPED THAT THE IMF WOULD CONTINUE  
TO CONSIDER FAVORABLY GO'S BORROWING REQUESTS.  
HOWEVER, ICELAND STILL SUPPORTS FSF AND DOES NOT SEE  
THE TWO FACILITIES AS ALTERNATIVES.

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12. THE NEW ZEALAND, FINNISH, AND SPANISH DELS  
ALL IMPLIED THAT REJECTION OF THE FSF WOULD HAVE  
ADVERSE IMPLICATIONS FOR THE RENEWAL OF THE TRADE  
PLEDGE. IN ADDITION, THE SPANISH DEL SUGGESTED THAT  
REJECTION BY THE U.S. OF THE FSF MIGHT HAVE A NEGATIVE  
IMPACT ON U.S. LEADERSHIP IN OTHER AREAS--E.G., THE  
IEA.

13. SWEDISH AND GREEK DELS TOUCHED ON ALL MAJOR THEMES IN SUPPORT OF FSF NOTED IN PARA 2. IN ADDITION, GREEK DEL STATED THAT FSF WAS VIEWED AS "FINANCIAL COROLLARY" OF IEA. IN CAREFULLY WORDED STATEMENT SWEDISH DEL, IN EMPHASIZING COMPLEMENTARITY OF FSF TO WITTEVEEN INITIATIVE, POINTED OUT INSURANCE POLICY NATURE OF FSF, ASSERTING THAT A COUNTRY WOULD HAVE TO EXHAUST ITS RECOURSE TO THE IMF BEFORE TURNING TO FSF.  
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14. AUSTRIAN REP EXPRESSED (WITHOUT ELABORATION) CONTINUED HOPE THAT FSF WOULD COME INTO FORCE.

15. SWISS DEL ALSO UNDERLINED HIS GOVERNMENT'S SUPPORT OF THE FSF, NOTED THAT HIS COUNTRY HAD ACCELERATED ITS NORMAL PROCEDURES SO AS TO RATIFY THE FSF EXPEDITIOUSLY, AND STATED "IT WAS A PITY" FSF HAD NOT COME INTO FORCE. HOWEVER, HE THEN SAID THAT IT MUST BE ACKNOWLEDGED THAT TIME HAS GONE BY AND IT MUST BE ASKED--TWO YEARS AFTER FSF SIGNED--WHAT SHOULD BE DONE IF THAT AGREEMENT, WHICH ONLY WAS CONCEIVED TO LAST TWO YEARS, IS NOT BROUGHT INTO FORCE. THAT IS WHY GOS HAS PARTICIPATED IN PRELIMINARY TALKS REGARDING A NEW IMF FACILITY. (SWISS AMBASSADOR ALSO CRITICIZED THOSE COUNTRIES WHICH HAVE RATIFIED THE FSF BUT HAVE CHOSEN NOT YET TO DEPOSIT INSTRUMENTS OF RATIFICATION.)

16. AUSTRALIA. AMB DONOVAN SAID LACK OF KNOWLEDGE OF CHARACTERISTICS OF NEW IMF FACILITY REQUIRED THAT HIS REMARKS BE PRELIMINARY. IN VIEW OF CHANGED CIRCUMSTANCES AND NEW PROPOSALS IN IMF, GOA HAD REVIEWED ITS APPROACH TO THE FSF BUT HAD CONCLUDED THAT, AT THIS STAGE, IT CONTINUES TO PREFER THE OECD SAFETY NET CONCEPT. REASON IS BASICALLY ONE OF DOUBT THAT WITTEVEEN PROPOSAL WILL "MEET THE BILL" IN TERMS OF ADEQUATE EMPHASIS ON NEED FOR ADJUSTMENT AND DOUBT THAT, EVEN WITH HIGH CONDITIONALITY, IT WOULD HAVE THE LENDER OF LAST RESORT CHARACTERISTIC WHICH ATTRACTS AUSTRALIA TO THE FSF. HOWEVER, GOA FEELS IT WOULD BE DIFFICULT TO JUSTIFY BOTH FACILITIES IF THE IMF PROPOSALS TURNED OUT (A) TO HAVE LARGE-SCALE SUPPORT BY IMPORTANT COUNTRIES (B) TO BE SUFFICIENTLY LARGE AND (C) TO POSSESS APPROPRIATE CHARACTERISTICS. (DONOVAN ALSO NOTED THAT DEPOSIT OF INSTRUMENT OF RATIFICATION BY GOA BEING WITHHELD UNTIL OTHERS RATIFY.)  
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17. IRISH AND DANISH DELS, WHILE REITERATING THEIR SUPPORT FOR THE FSF, ASSERTED THAT THEY LACKED SUFFICIENT INFORMATION ON THE PROPOSED IMF FACILITY TO BE ABLE TO TAKE A FINAL POSITION REGARDING CONTINUED NEED FOR FSF. IRISH DEL CAUTIONED AGAINST LIGHTLY DISMISSING FSF.

18. U.S. DEL MADE STATEMENT BASED ON PARA TWO REF B.

19. IN RESPONDING TO SEVERAL DELEGATES' REQUEST THAT THEY BE INFORMED BY THE OECD SECRETARIAT OF THE DELIBERATIONS OF THE G-10 DEPUTIES, SECGEN NOTED THAT THE SECRETARIAT NORMALLY REPORTS TO MEMBER GOVERNMENTS ON MEETINGS WHERE THE SECRETARIAT WAS AN OBSERVER AND THAT CERTAINLY THEY WOULD DO SO IN THIS INSTANCE. IT WAS AGREED THAT SECRETARIAT WILL MAKE THIS REPORT AT THE APRIL 19 OECD COUNCIL.  
TURNER

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